

orig mine file

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LAW OFFICES OF
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A PROFESSIONAL CORPORATION
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CLAYTON J. PARR

Rec. DOGM
3-21-91
DRN

March 21, 1991

Dianne R. Nielsen, Director
Division of Oil, Gas & Mining
3 Triad Center, Suite 350
355 West North Temple
Salt Lake City, UT 84180-1203

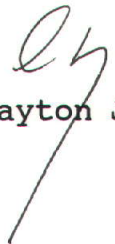
Re: Geneva Steel, Iron Mountain Mine and
Comstock Mine, Iron County, Utah

Dear Dianne:

Enclosed are the revised versions of the Interim Reclamation Contract and the accompanying Self Bonding and Indemnity Agreement with the changes that we discussed. Also enclosed are highlighted pages that were changed.

Please let me know if you have any questions.

Very truly yours,


Clayton J. Parr

CJP/wc
Enclosures

cc: Roy Benson (w/encls.)
Lynn Hart (w/encls.)

NONCOAL
(July 1989)

Mine Iron Mountain and Comstock Mines
Permit No. M/021/008 and M/021/005
Date March 21, 1991
Checked By _____

SELF BONDING QUALIFICATION SHEET

Applicant required to meet one of the following criteria:

1. Current rating for most recent bond issuance
("A" or higher) (Moody's Investor Service or
Standard and Poor's Corporation) _____

None

or

2. A. Tangible Net Worth = (at least \$10 Million)
(Net worth minus intangibles [Goodwill and
rights to patents or royalties]) _____

\$125,131,000

B. Total Liabilities/Net Worth
(2.5 times or less) = _____

1.37

C. Current Assets/Current Liabilities
(1.2 times or greater) = _____

3.25

Reference: Annual Report - Financial pages (26-29) 1990

or

3. A. Fixed assets in the United States
(at least \$20 million) = _____

\$ 96,789,000

B. Total Liabilities/Net Worth
(2.5 times or less) = _____

1.37

C. Current Assets/Current Liabilities
(1.2 times or greater) = _____

3.25

Reference: Annual Report - Financial pages (26-29) 1990

Has the operator been in continuous operation of not less than five (5)
years (immediately preceding the time of application) (submitted five
annual reports)?

Yes _____ No X

Has the operator furnished financial statements prepared by an
independent certified public accountant in conformity with generally
accepted accounting principles?

Yes X No _____

Has the operator furnished unaudited financial statements for
completed quarters in the current fiscal year?

Yes _____ No X

Has the operator supplied other useful information for determining
financial qualifications?

Yes _____ No X

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- continued

of required levels of accounts receivable and inventory as collateral under the revolving credit facility (which is currently the Company's sole source of external financing), the Company will have available to it up to the full \$100 million contemplated by the revolving credit facility until April 15, 1991, at which time the Company will seek to extend or replace such facility. The Company believes that alternative credit facilities or an extension of its existing revolving credit facility will be obtainable. However, there can be no assurance that the Company will be able to extend or replace such facility or that funds from available sources will be sufficient to fund the Company's modernization

program, continuing capital maintenance project requirements and other cash needs, or that the costs of modernization or capital maintenance will not substantially exceed those currently anticipated by the Company.

Inflation can be expected to have an effect on many of the Company's operating costs and expenses. Due to worldwide competition in the steel industry, the Company may not be able to pass through such increased costs to its customers.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO GENEVA STEEL:

We have audited the accompanying balance sheets of Geneva Steel (a Utah corporation) as of August 31, 1990 and 1989, and the related statements of income, stockholders' equity and cash flows for each of the three years in the period ended August 31, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating

the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Geneva Steel as of August 31, 1990 and 1989, and the results of its operations and its cash flows for each of the three years in the period ended August 31, 1990 in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

Salt Lake City, Utah
September 20, 1990

BALANCE SHEETS*(Dollars in Thousands)*

ASSETS	AUGUST 31,	1990	1989
Current Assets:			
Cash and cash equivalents (Note 2)		\$ 63,706	\$ 155
Marketable securities (Note 2)		7,850	—
Accounts receivable, less allowance for doubtful accounts of \$3,939 and \$3,688, respectively (Notes 2 and 3)		65,194	68,692
Inventories (Notes 2, 3 and 5)		59,400	76,099
Prepaid expenses and other (Note 10)		2,681	4,407
Total current assets		198,831	149,353
Property, Plant and Equipment (Notes 2 and 5):			
Land		3,173	2,467
Buildings		3,725	3,551
Machinery and equipment		107,405	56,594
		114,303	62,612
Less-accumulated depreciation		(17,514)	(8,875)
Net property, plant and equipment		96,789	53,737
Other Assets:			
Deferred organization costs, less accumulated amortization of \$3,854 and \$2,565, respectively (Note 2)		2,562	3,851
Deferred loan costs, less accumulated amortization of \$1,093 and \$452, respectively (Notes 2 and 3)		3,756	1,892
Deferred income tax benefit (Note 4)		1,226	1,432
Total other assets		7,544	7,175
		\$303,164	\$210,265

LIABILITIES AND STOCKHOLDERS' EQUITY	AUGUST 31,	1990	1989
Current Liabilities:			
Current maturities of long-term debt (Note 3)		\$ 421	\$ 4,482
Accounts payable		21,062	23,004
Accrued liabilities		8,918	6,307
Accrued payroll and related taxes		12,279	11,616
Accrued pension and profit sharing costs (Note 8)		10,087	13,431
Accrued interest payable		5,964	367
Royalty obligation (Note 5)		2,000	2,000
Income taxes payable (Note 4)		396	10,222
Total current liabilities		61,127	71,429
Long-Term Debt, less current maturities (Note 3)		110,588	46,329
Commitments and Contingencies (Note 5)			
Stockholders' Equity (Notes 3, 6 and 7):			
Preferred stock, no par value, 4,000,000 shares authorized, none issued		—	—
Common stock:			
Class A—no par value, 60,000,000 shares authorized, 13,954,871 and 13,341,538 shares issued, respectively		81,646	67,047
Class B—no par value, 50,000,000 shares authorized, 26,655,288 shares issued and outstanding at August 31, 1990		13,367	—
Retained earnings		58,331	47,355
Less-1,666,500 shares of Class A common stock held in treasury, at cost		(21,895)	(21,895)
Total stockholders' equity		131,449	92,507
		\$303,164	\$210,265

The accompanying notes to financial statements are an integral part of these balance sheets.

STATEMENTS OF INCOME

(In Thousands, Except Per Share Amounts)

	YEAR ENDED AUGUST 31,	1990	1989	1988
Net sales (Notes 2 and 9)		\$516,966	\$521,824	\$400,226
Cost of sales		413,572	399,017	283,997
Gross margin		103,394	122,807	116,229
Selling, general and administrative expenses		29,017	27,206	15,308
Income from operations		74,377	95,601	100,921
Other income (expense):				
Interest and other income		3,778	4,482	952
Interest expense		(9,921)	(6,829)	(5,929)
		(6,143)	(2,347)	(4,977)
Income before provision for income taxes		68,234	93,254	95,944
Provision for income taxes (Note 4)		26,611	28,213	4,056
Net income		\$ 41,623	\$ 65,041	\$ 91,888
Pro forma with full tax provision (Unaudited) (Note 2)				
Income before provision for income taxes		\$ 68,234	\$ 93,254	\$ 95,944
Pro forma provision for income taxes		26,611	37,127	35,722
Pro forma net income		\$ 41,623	\$ 56,127	\$ 60,222
Pro forma net income per common share		\$ 3.18	\$ 4.28	\$ 4.51
Weighted average shares outstanding		13,104	13,110	13,340

The accompanying notes to financial statements are an integral part of these statements.

STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in Thousands)

	Shares Issued		Amount		RETAINED EARNINGS	TREASURY STOCK	TOTAL
	COMMON CLASS A	COMMON CLASS B	COMMON CLASS A	COMMON CLASS B			
Balance at September 1, 1987	6,732,000	—	\$ 513	\$ —	\$ —	\$ —	\$ 513
Cash dividends (Note 6)	—	—	—	—	(1,000)	—	(1,000)
Distributions to S Corporation stockholders for income taxes (Note 4)	—	—	—	—	(28,453)	—	(28,453)
Net income	—	—	—	—	91,888	—	91,888
Balance at August 31, 1988	6,732,000	—	513	—	62,435	—	62,948
Cash dividends (Note 6)	—	—	—	—	(5,999)	—	(5,999)
Distributions to S Corporation stockholders for income taxes (Note 4)	—	—	—	—	(8,089)	—	(8,089)
Exercise of warrants to purchase Class A common stock (Note 7)	6,609,538	—	501	—	—	—	501
Capitalization to Class A common stock of S Corporation undistributed earnings (Note 6)	—	—	66,033	—	(66,033)	—	—
Purchase of 1,666,500 shares of Class A common stock	—	—	—	—	—	(21,895)	(21,895)
Net income	—	—	—	—	65,041	—	65,041
Balance at August 31, 1989	13,341,538	—	67,047	—	47,355	(21,895)	92,507
Cash dividends (Note 6)	—	—	—	—	(27,047)	—	(27,047)
Distributions to S Corporation stockholders for income taxes (Note 4)	—	—	—	—	(3,600)	—	(3,600)
Exercise of warrants to purchase Class A common stock (Note 7)	28,861	—	2	—	—	—	2
Conversion of Class A common stock into Class B common stock (Note 6)	(2,778,811)	27,788,112	(13,935)	13,935	—	—	—
Conversion of Class B common stock into Class A common stock (Note 6)	113,283	(1,132,824)	568	(568)	—	—	—
Issuance of Class A common stock, net of offering costs	3,250,000	—	27,964	—	—	—	27,964
Net income	—	—	—	—	41,623	—	41,623
Balance at August 31, 1990	13,954,871	26,655,288	\$ 81,646	\$ 13,367	\$ 58,331	\$(21,895)	\$131,449

The accompanying notes to financial statements are an integral part of these statements.

STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	YEAR ENDED AUGUST 31,	1990	1989	1988
Cash flows from operating activities:				
Net income		\$ 41,623	\$ 65,041	\$ 91,888
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		10,999	8,766	4,721
Deferred income tax provision (benefit)		206	(1,432)	—
(Increase) decrease in current assets—				
Accounts receivable		3,498	(23,364)	(46,067)
Inventories		16,699	(21,457)	(32,992)
Prepaid expenses and other		1,726	(3,760)	(509)
Increase (decrease) in current liabilities—				
Accounts payable		(1,942)	(5,038)	28,042
Accrued liabilities		2,611	1,358	3,426
Accrued payroll and related taxes		663	2,735	8,881
Accrued pension and profit sharing costs		(3,344)	943	12,488
Accrued distributions to S Corporation stockholders for income taxes		—	(2,648)	2,648
Accrued interest payable		5,597	270	97
Income taxes payable		(9,826)	10,222	—
Net cash provided by operating activities		68,510	31,636	72,623
Cash flows from investing activities:				
Purchase of marketable securities		(9,797)	—	—
Proceeds from sale of marketable securities		1,947	—	—
Purchase of property, plant and equipment		(52,794)	(27,716)	(11,706)
Payments for deferred organization costs		—	—	(2,609)
Net cash used for investing activities		\$ (60,644)	\$ (27,716)	\$ (14,315)

The accompanying notes to financial statements are an integral part of these statements.

STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	YEAR ENDED AUGUST 31,	1990	1989	1988
Cash flows from financing activities:				
Proceeds from long-term debt		\$453,224	\$283,877	\$ —
Payments on long-term debt		(393,026)	(264,427)	(8,560)
Payments for deferred loan costs		(2,935)	(1,810)	—
Payments on royalty obligation		—	(2,484)	(4,452)
Proceeds from short-term borrowings		—	—	78,160
Payments on short-term borrowings		—	(12,000)	(66,610)
Cash dividends		(27,047)	(5,999)	(1,000)
Distributions to S Corporation stockholders for income taxes (Note 4)		(3,600)	(8,089)	(28,453)
Proceeds from exercise of warrants to purchase Class A common stock		2	501	—
Purchase of Class A treasury stock		—	(21,895)	—
Proceeds from issuance of Class A common stock, net of offering costs		27,964	—	—
Other		1,103	—	331
Net cash provided by (used for) financing activities		55,685	(32,326)	(30,584)
Net increase (decrease) in cash and cash equivalents		63,551	(28,406)	27,724
Cash and cash equivalents at beginning of year		155	28,561	837
Cash and cash equivalents at end of year		\$ 63,706	\$ 155	\$ 28,561
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest (net of amount capitalized)		\$ 5,760	\$ 6,004	\$ 5,833
Income taxes (Note 4)		36,231	19,423	4,056

The accompanying notes to financial statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands)

1 HISTORY AND BUSINESS

Geneva Steel (the "Company") is an integrated steel mill which manufactures a wide range of primary steel products. The Company was formed in February 1987 for the principal purpose of acquiring the assets of Geneva Steel Works ("GSW"), a division of United States Steel Corporation ("USS"). GSW had ceased manufacturing and had been placed on hot idle status for approximately 13 months prior to its acquisition by the Company. Prior to September 1, 1987, the Company did not have any manufacturing operations but incurred organization costs of approximately \$3,807 and issued 6,732,000 shares of common stock. Also, warrants to purchase common stock were issued (see Note 7).

On August 31, 1987, the Company entered into an Asset Purchase Agreement (the "Agreement") with USX Corporation ("USX"),

of which USS is a division. The Agreement provided for transfer of title to all assets, including raw material inventories, and the assumption of certain liabilities of GSW for a purchase price of \$44,100 payable in cash and long-term obligations. The acquisition has been accounted for as a purchase with the purchase price being allocated to the inventories based on their fair market values and the remainder to property, plant and equipment based on their relative fair market values at the date of acquisition, as determined through an independent appraisal of the assets of GSW.

On January 16, 1990, the Company, previously known as Basic Manufacturing and Technologies of Utah, Inc., changed its name to Geneva Steel.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

The Company's cash management system utilizes a revolving line-of-credit with a finance company (see Note 3). During periods when amounts are outstanding on the revolving line-of-credit, cash receipts are remitted directly to the finance company through a lockbox account and, as disbursements are made, the Company borrows against the line-of-credit.

For purposes of the statements of cash flows, the Company considers all highly liquid income-earning securities with an initial maturity, at time of purchase, of ninety days or less to be cash equivalents.

Marketable Securities

Marketable securities consist of high grade commercial paper and government obligations and are stated at the lower of aggregate cost or market.

Inventories

Inventories include costs of material, labor and manufacturing overhead. Inventories are stated at the lower of cost (using a weighted-average method) or market value. The composition of inventories was as follows:

	AUGUST 31,	1990	1989
Raw materials	\$	15,635	\$ 32,318
Semi-finished and finished goods		35,773	35,717
Operating materials		7,992	8,064
	\$	59,400	\$ 76,099

Operating materials consist primarily of production molds, platforms for the production molds and open hearth charging boxes. Operating materials are normally consumed within one year and are accounted for as inventory.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated using the straight-line method over their useful lives as follows:

Buildings	31.5 years
Machinery and Equipment	3-10 years

Interest directly related to the construction or major rebuild of facilities is capitalized and amortized over the life of the related asset. Capitalization of interest ceases when the asset is placed in service. The Company capitalized approximately \$2,469, \$461 and \$138 of interest during the years ended August 31, 1990, 1989 and 1988, respectively.

Maintenance and repairs are charged to expense as incurred and costs of improvements and betterments are capitalized. Upon disposal, related costs and accumulated depreciation are removed from the accounts and resulting gains or losses are reflected in income.

NOTES TO FINANCIAL STATEMENTS - continued

(Dollars in Thousands)

Major spare parts for machinery and equipment are capitalized and included in machinery and equipment in the accompanying financial statements. Spare parts are depreciated using the straight-line method over the useful lives of the related machinery and equipment.

Costs incurred in connection with the construction or major rebuild of facilities are capitalized as construction in progress. No depreciation is recognized on these assets until placed in service. As of August 31, 1990 and 1989, \$44,624 and \$15,293, respectively, of construction in progress was included in machinery and equipment in the accompanying financial statements.

Other Assets

Deferred organization costs represent the costs incurred by the Company prior to September 1, 1987 (see Note 1) and other direct costs which approximated \$2,609 related to the commencement of operations. These costs are being amortized over five years on a straight-line basis.

Deferred loan costs represent costs incurred in connection with the processing and obtaining of long-term financing. These costs are being amortized on a straight-line basis over the term of the applicable financing agreement.

Revenue Recognition

Sales are recognized when the product is shipped to the customer. Sales are reduced by the amount of customer claims. As of August 31, 1990 and 1989, a reserve for unsettled customer claims of \$2,501 and \$2,704, respectively, was included in allowance for doubtful accounts in the accompanying financial statements.

Income Taxes

In December 1987, the Financial Accounting Standards Board issued Statement No. 96, "Accounting for Income Taxes." The Company adopted the provisions of Statement No. 96 effective September 1, 1987.

Effective January 1, 1988, the Company's stockholders elected for Federal and state income tax purposes to include their proportionate share of the Company's taxable income on each of their individual returns (an S Corporation election). Effective November 9, 1988, corporate warrant holders exercised their warrants to purchase common stock of the Company (see Note 7). This event terminated the S Corporation election and the Company again operates as a C Corporation for Federal and state income tax purposes.

The provision for income taxes for the year ended August 31, 1988 is for the period from commencement of operations (September 1, 1987) to December 31, 1987. The provision for income taxes for the year ended August 31, 1989 is for the period from November 10, 1988 through August 31, 1989. These periods cover the time the Company operated as a C Corporation for Federal and state income tax purposes (see Note 4). The unaudited pro forma provision for income taxes is included in the accompanying financial statements to present net income as if the S Corporation election had not been made on January 1, 1988 and the Company had operated as a C Corporation for all 12 months of the years ended August 31, 1989 and 1988. The provision for income taxes for the year ended August 31, 1990 reflects the Company's historical provision for income taxes and is not pro forma.

Net Income Per Common Share

Net income per common share is based upon the weighted average number of common and common equivalent shares outstanding during the periods presented. Common equivalent shares consist of warrants and options to purchase common stock which have a dilutive effect when applying the treasury stock method. Class B common stock is included in the weighted average number of common shares outstanding at one share for every ten shares outstanding as the Class B common stock can be converted into Class A common stock at this same rate. Also, the Class B common stock is entitled to one-tenth of the dividends and other distributions paid to Class A common stockholders (see Note 6).

In January 1990, the stockholders of the Company authorized a 3.3-for-1 stock split and the Board of Directors granted options to purchase Class A common stock to management (see Note 6). Weighted average shares outstanding and all per share amounts included in the accompanying financial statements reflect the increased number of shares giving retroactive effect to the stock split.

Reclassifications

Certain reclassifications have been made in the prior years' financial statements to conform to the fiscal 1990 presentation.

NOTES TO FINANCIAL STATEMENTS - continued

(Dollars in Thousands)

3 LONG-TERM DEBT

Long-term debt as of August 31, 1990 and 1989 consisted of the following:

	AUGUST 31,	1990	1989
Term loan from a finance corporation, paid in full in October 1989	\$	—	\$18,343
Revolving line-of-credit from a finance company, interest payable monthly at 1.5% above the prime rate (11.5 and 12.0% as of August 31, 1990 and 1989, respectively), available until April 15, 1991 (see below)		—	30,985
Senior fixed-rate term notes from a group of institutional investors, interest payable semi-annually at 11.4% principal payable in five equal annual installments of \$19,000 beginning March 1, 1995, unsecured		95,000	—
Subordinated fixed-rate term note from a finance corporation, interest payable semi-annually at 13.0%, principal payable in five annual installments of \$1,500 beginning March 1, 1995 with remaining principal due March 1, 2000, unsecured		15,000	—
Other		1,009	1,483
		111,009	50,811
Less-current maturities		(421)	(4,482)
		<u>\$110,588</u>	<u>\$46,329</u>

The aggregate amounts of principal maturities of long-term debt as of August 31, 1990, were as follows:

YEAR ENDING AUGUST 31,	
1991	\$ 421
1992	588
1993	—
1994	—
1995	20,500
Thereafter	89,500
	<u>\$111,009</u>

The Company maintains a \$100,000 revolving line-of-credit from a finance company (no outstanding balance at August 31, 1990). The amount generally available to the Company is the lesser of \$100,000 or the sum of 85% of eligible accounts receivable plus the lesser of 60% of eligible inventories or \$50,000. The Company can, at an increased interest rate on the revolving line-of-credit, borrow up to 75 percent of eligible inventories. The Company pays to the lender a quarterly under-utilization fee based on an annual rate of .25% of the average unused portion of the available line-of-credit. Also, the Company pays to the lender an annual fee of .25% of the total amount committed by the lender. This credit line is principally collateralized by the Company's accounts receivable and inventories. As of August 31, 1990 the unused portion of the line-of-credit available to the Company was \$90,037.

During the years ended August 31, 1990 and 1989, the Company retired certain term loans and the short-term borrowings which were established when the Company was originally capitalized. Deferred loan costs applicable to debt retired were written off by the Company and are included in interest expense in the accompanying financial statements.

Financial covenants contained in the senior and subordinated fixed-rate term notes above include, among other things, a limitation on the amount of dividends and distributions on capital stock that the Company may pay, a minimum net worth requirement, a limitation on the incurrence of additional indebtedness unless certain financial tests are satisfied, a limitation on mergers, consolidations and sales of assets, and a limitation on liens. Based on such covenants, as of August 31, 1990 approximately \$43,426 of the Company's retained earnings balance was restricted from payment of dividends. The senior and subordinated term notes are redeemable at the option of the Company subject to prepayment premiums and will be subject to redemption at a premium at the option of the holder upon the occurrence of certain changes in control and other business combinations. The Company's revolving line-of-credit referred to above has been amended to provide financial and change in control covenants that are substantially similar to those set forth in the senior fixed-rate term notes.

NOTES TO FINANCIAL STATEMENTS - continued

(Dollars in Thousands)

4 INCOME TAXES

Effective January 1, 1988, the Company's stockholders elected for Federal and state income tax purposes to include their proportionate share of the Company's taxable income on each of their individual returns (an S Corporation election). Effective November 9, 1988, with the corporate warrant holders' exercise of warrants to purchase common stock (see Note 7), the S Corporation election was terminated and the Company again operates as a C Corporation for Federal and state income tax purposes. For the period from January 1, 1988 to November 9, 1988, the period during which the Company operated as an S Corporation, the Company made distributions to the stockholders of the Company to pay the estimated taxes attributable to the Company's taxable income since the date of the S Corporation election. These distributions were made to an escrow account, controlled by an independent third party, during which time the funds were considered to be owned by the stockholders. Once the independent third party determines that the tax liabilities of the stockholders related to the S

Corporation election have been satisfied, any excess funds remaining in the escrow account will be remitted to the Company. Any interest earned on the principal deposited in the escrow account belongs to the Company. During the years ended August 31, 1990, 1989 and 1988, the Company made distributions to the escrow account of \$3,600, \$8,089 and \$28,453, respectively.

For the years ended August 31, 1989 and 1988, Federal and state income taxes were provided for in the accompanying financial statements for only the periods from November 10, 1988 through August 31, 1989 and from commencement of operations (September 1, 1987) through December 31, 1987. These represent the periods during those fiscal years that the Company operated as a C Corporation for Federal and state income tax purposes. The Company was a C Corporation during the entire year ended August 31, 1990. The provision for income taxes consists of the following:

	YEAR ENDED AUGUST 31,	1990	1989	1988
Current tax provision —				
Federal		\$22,871	\$25,471	\$3,764
State		3,534	4,174	292
		<u>26,405</u>	<u>29,645</u>	<u>4,056</u>
Deferred tax provision (benefit) —				
Federal		179	(1,287)	—
State		27	(145)	—
		<u>206</u>	<u>(1,432)</u>	<u>—</u>
Provision for income taxes		<u>\$26,611</u>	<u>\$28,213</u>	<u>\$4,056</u>

Deferred income taxes result from temporary differences in the recognition of revenues and expenses for tax and financial reporting purposes. The components of the provision (benefit) for deferred income taxes are as follows:

	YEAR ENDED AUGUST 31,	1990	1989	1988
Tax depreciation in excess of book depreciation		\$ 1,551	\$ 903	\$ —
Inventory costs capitalized for tax and expensed for books		(688)	(1,811)	—
Accrued vacation not currently deductible for tax		(264)	(1,025)	—
Operating materials capitalized for books and expensed for tax		(27)	3,008	—
Allowance for doubtful accounts expensed for books but not currently deductible for tax		(169)	(1,376)	—
Other		(197)	(1,131)	—
		<u>\$ 206</u>	<u>\$ (1,432)</u>	<u>\$ —</u>

NOTES TO FINANCIAL STATEMENTS - continued

(Dollars in Thousands)

The provision for income taxes as a percentage of income for the periods the Company operated as a C Corporation differs from the statutory Federal income tax rate due to the following:

	YEAR ENDED AUGUST 31,	1990	1989	1988
Statutory Federal income tax rate		34.0%	34.0%	34.0%
State income taxes, net of Federal income tax benefit		3.3	3.3	3.3
Elimination of deferred benefit as a result of the S Corporation election		—	—	5.4
Recognition of deferred benefits as a result of the termination of the S Corporation election		—	(2.0)	—
Other		1.7	3.3	1.5
Effective tax rate		39.0%	38.6%	44.2%

Because of the S Corporation election, deferred income tax benefits of \$500 relating to the Company's operations prior to January 1, 1988, were included in the current provision for income taxes for the year ended August 31, 1988 since the income earned and tax credits generated by the Company from January 1, 1988 to November 9, 1988 were reported by the stockholders on their individual income tax returns.

Because of the termination of the S Corporation election, deferred income tax benefits of \$1,442 relating to the Company's operations prior to November 10, 1988, were included as a reduction of the provision for income taxes for the year ended August 31, 1989 since the income earned and tax credits generated subsequent to November 9, 1988, have been reported on the Company's income tax return.

5 COMMITMENTS AND CONTINGENCIES

Modernization Program

The Company has initiated substantial capital expenditures to modernize its steelmaking, casting and rolling facilities, thereby increasing product quality, complying with environmental regulations, reducing cost of certain production processes and improving customer service. The Board of Directors has approved these modernization improvements which the Company expects to cost approximately \$239 million, including capitalized interest. During the year ended August 31, 1990, the Company spent approximately \$32 million on the modernization program. The remaining amount of \$207 million is expected to be spent over the next two fiscal years.

Legal Matters

The company is subject to various legal matters, which it considers normal for its business activities. Management believes that these matters will not have a material impact on the financial condition of the Company.

Environmental Matters

Compliance with environmental laws and regulations is a significant factor in the Company's business. The Company is subject to Federal, state and local environmental laws and regulations concerning, among other things, air emissions, wastewater discharge, and solid and hazardous waste disposal. The Company believes that it is in compliance in all material

respects with all currently applicable environmental regulations, except for a revised permit issued by the EPA which became effective December 1, 1989 authorizing discharge of water from the steel mill into Utah Lake. Environmental legislation and regulations have changed rapidly in recent years and it is likely that the Company will be subject to increasingly stringent environmental standards in the future. Although the Company has provided for substantial expenditures in its modernization program for environmental matters, it is not possible at this time to predict the amount of capital expenditures that may ultimately be required to comply with all environmental laws and regulations.

The EPA has recently finalized coke oven by-product plant regulations. In May 1990, the Company requested and was granted a waiver of compliance until September 1991 to design and construct the pollution control equipment required by these regulations. Under these regulations, the Company will be required to install new equipment which is presently in the design stage. The cost of such equipment is estimated to be \$5.8 million and is included in the Company's modernization program budget. The EPA has also proposed coke oven emissions regulations, which, together with proposed legislation and regulations relating to clean air, hazardous waste and clean water, could increase environmental liabilities and require the Company

NOTES TO FINANCIAL STATEMENTS - continued

(Dollars in Thousands)

and other domestic steel producers to significantly increase environmental expenditures. In addition to the \$62 million budgeted for the Q-BOP facility, the Company has budgeted a total of approximately \$26 million for environmental capital improvements in fiscal 1990 through fiscal 1992, which amount is included in the Company's capital maintenance and modernization program. The Company will likely be required to make significant additional expenditures relating to environmental matters on an ongoing basis. There can be no assurance that these expenditures, or other expenditures and penalties resulting from unforeseen circumstances, administrative actions or liabilities relating to environmental matters, will not have a material adverse effect on the Company's results of operations or financial condition.

At the time of the Company's acquisition of the steel mill, the Company and USX identified certain hazardous and solid waste sites and other environmental conditions which existed prior to the acquisition. USX has agreed to indemnify the Company (subject to the sharing arrangements described below) for any fines, penalties, costs (including costs of clean-up, required studies, and reasonable attorney's fees), or other liabilities for which the Company becomes liable due to any environmental condition existing on the Company's real property as of the acquisition date that is determined to be in violation of any environmental law, is otherwise required by applicable judicial or administrative action, or is determined to trigger civil liability. The Company has provided a similar indemnity (but without any similar sharing arrangement) to USX for conditions that may arise after the acquisition.

Under the acquisition agreement between the two parties, the Company and USX have agreed to share on an equal basis the first \$20 million of costs incurred by either party to satisfy any government demand for studies, closure, monitoring, or remediation at specified waste sites or facilities or for other claims under the Comprehensive Environmental Response, Compensation and Liability Act or the Resource Conservation and Recovery Act. The Company is not obligated to contribute more than \$10 million for the clean-up of wastes generated prior to the acquisition. For example, environmental laws requiring evaluation of underground storage tanks at the facilities may require corrective action at costs which may be material and will be subject to the indemnification agreement. The Company anticipates that clean-up of environmental conditions that existed prior to the acquisition will require significant expenditures, and believes that the Company will be entitled to indemnification from USX, subject to the foregoing sharing arrangements, for these expenditures.

The EPA issued to the Company a revised permit which became effective December 1, 1989 authorizing discharge of water from the steel mill into Utah Lake. Authority for administration of the permit program in Utah has been delegated by the EPA to the Utah Water Pollution Control Committee (the "State Committee"). The Company is currently not in compliance with the limits relating to the discharge of ammonia nitrogen (one of the effluents regulated by the revised permit). The limits in the revised permit require installation of water pollution controls, including a wastewater treatment plant. Construction of the wastewater treatment facility was completed in September 1990 and the facility is currently in the startup phase. The Company expects the facility to be fully operational in March 1991. The plant will treat wastewater streams from coke production and reduce airborne emissions generated by the slag cooling process. The wastewater stream will then flow into a retention pond located on approximately 300 acres leased from the State of Utah under a lease expiring in December 1991, which is a significant part of the Company's present and proposed water pollution control facilities.

On May 31, 1990, the Company and the State Committee entered into a settlement agreement and consent order with respect to the revised permit discussed above, pursuant to which the Company agreed to pay the sum of \$23 for each month in the period beginning December 1, 1989 and ending July 1, 1991. In addition, the Company agreed to pay \$1 per day for each day tested (four days per month) and \$2 per month so long as it continues to violate the ammonia nitrogen effluent limit contained in the revised permit. If, however, the Company is successful in reducing ammonia nitrogen discharge amounts below designated levels set forth in the settlement agreement for any given month, all payments that would otherwise be payable in such month will be reduced by 50%. In the event the Company is successful in complying with the ammonia nitrogen effluent limits contained in the revised permit for any given month, no payments whatsoever will be required for such month. The Company believes that when the facility is operational (expected in March 1991), the Company will be in compliance with the revised permit.

The steel mill is located in a region required by Federal law to reduce airborne emissions. The State of Utah is currently developing air quality regulations for fine particulates referred to as "PM10." Data released by the State of Utah and the Company's own studies suggest that the steel mill is a major contributor of airborne fine particulate monitored near the plant. The Company's

NOTES TO FINANCIAL STATEMENTS - continued

(Dollars in Thousands)

modernization program includes installation of the Q-BOP, a coke oven gas desulfurization facility and other capital improvements that the Company expects will substantially reduce its primary and secondary emissions of PM10 over the next two years.

It is the Company's practice to dispose of hazardous waste materials by incineration on site or by incineration or disposal at qualified recycling and disposal facilities. The Company, like all generators of hazardous waste, has continuing liability for disposal of hazardous waste materials that are not incinerated, even though delivered to an off-site facility.

Royalty Obligation

Pursuant to the Agreement between the Company and USX, the Company agreed to pay USX 2% of the amount by which gross sales proceeds in any calendar month exceed the cost of debt service for such month. The payments were subject to a maximum aggregate amount of \$10,000 and were payable within 90 days after month-end. The initial liability recorded by the Company (\$8,936), which was accounted for as a component of the initial purchase price, represented the present value of the \$10,000, using a schedule of expected payments discounted at 11 percent. As of August 31, 1990, the Company had paid this obligation in full with the exception of \$2,000 which is being held, with the agreement of USX, by the Company as part of an indemnification agreement as discussed above whereby USX will share in the cost of the construction of the wastewater treatment facility referred to above.

Purchase Commitments

Effective July 1, 1988, the Company entered into an agreement, which was subsequently amended on July 1, 1990, to purchase a minimum of 550,000 tons of medium-volatile metallurgical-grade coking coal. Beginning July 1, 1990, the Company agreed to pay forty-seven dollars per ton each contract year (July 1 - June 30) through June 30, 1995. The contract price is adjusted annually beginning July 1, 1991, based on the change in the average per ton Federal royalty paid for coal mined pursuant to the agreement and, beginning July 1, 1993, based on the change in the Producer Price Index for All Commodities.

Effective September 27, 1988, the Company entered into an agreement, which was subsequently amended on June 8, 1990, to purchase a minimum of approximately 207 million standard cubic feet of oxygen each month at an average price of eight hundred fifteen dollars per million cubic feet. The contract expires on April 1, 1998. The contract price is adjusted semi-annually based

on the change in the Producer Price Index for Industrial Commodities ("PPI"). The Company has agreed to pay all sales and excise taxes levied against the supplier.

Effective September 1, 1989, the Company entered into an agreement to purchase electrical power through January 31, 1999. The contract specifies that the Company will pay a monthly demand and back-up facilities charge based on stated minimum monthly kilowatts and rate per kilowatt. The rate for the demand charge is adjusted annually based on the change in the supplier's per megawatt fixed transmission investment. The rate for the facilities charge will remain constant over the term of the contract. Under this contract, the Company is committed to pay approximately \$2,006 in each fiscal year 1991 through 1998 and approximately \$837 in fiscal year 1999.

Effective February 17, 1989, and as amended on November 1, 1989, the Company entered into a four-year agreement to purchase a minimum of 420,000 tons of high-volatile metallurgical-grade coking coal in the first contract year (March 1-February 28) and 520,000 tons in each subsequent contract year. The contract specifies that the Company will pay thirty-six dollars and thirty-two dollars and fifty cents per ton for the coal in contract years one and two, respectively. A contract price of thirty-two dollars per ton in years three and four is adjusted annually based on the change in the Gross National Product Implicit Price Deflator for All Commodities.

Effective July 12, 1990, the Company entered into an agreement to purchase 100% of the oxygen, nitrogen and argon produced at a facility (the "Oxygen Facility") to be constructed at the Company's steel mill and operated by an independent party. The terms of the contract specify that the cost associated with the construction and operation of the Oxygen Facility will be borne by the independent party and that the Company will pay a Base Monthly Charge ("BMC") of approximately \$403 beginning the date of first delivery of product (estimated to be September 1991) and each month thereafter for a period of fifteen years. The BMC will be adjusted upon completion of the Oxygen Facility (estimated to be August 1991) based upon the change in the PPI and each January 1 and July 1 thereafter based upon one third of the change in the PPI from the date of completion.

NOTES TO FINANCIAL STATEMENTS - continued

(Dollars in Thousands)

6 COMMON STOCK

Capitalization of Undistributed Earnings

On November 9, 1988, the S Corporation election was terminated. The undistributed earnings of the S Corporation, which were approximately \$66,033, were capitalized to Class A common stock as of that date.

Recapitalization of the Company

On November 6, 1989, the Company's stockholders approved an amendment to the Articles of Incorporation which, among other things, provided for a new Class B common stock, redesignated the Company's existing common stock as Class A common stock, eliminated cumulative voting and added limited rights to convert each share of Class A common stock into ten shares of Class B common stock.

In connection with the exchange of Class A shares for Class B shares, the Board of Directors declared a special cash dividend of three dollars and three cents per share on the Company's Class A common stock to the stockholders of record at the close of business on November 7, 1989. The stockholders who elected to convert their Class A common stock into Class B common stock did not receive the special dividend with respect to any shares converted. The Class B common stock is entitled to one-tenth of future dividends and other distributions paid on the Class A common stock. The holders of both classes of common stock are entitled to one vote per share. On November 7, 1989, certain stockholders converted 2,778,811 shares of Class A common stock into 27,788,112 shares of Class B common stock. Beginning January 1, 1990, ten Class B shares are convertible into one Class A share.

In January 1990, a certain holder of Class B common stock converted 1,132,824 shares of Class B common stock into 113,283 shares of Class A common stock.

In addition, the Board of Directors approved the grant by the Company of certain registration rights to holders of Class A common stock. These rights entitle the holders of Class A common stock, under certain circumstances and subject to certain limitations, to require registration of their shares.

Stock Split

On January 30, 1990, the stockholders of the Company authorized a 3.3-for-1 stock split for both classes of common stock. The stock split has been retroactively reflected in the accompanying financial statements and in these notes to financial statements.

Cash Dividends

In addition to the special cash dividend discussed above, the Company declared and paid aggregate cash dividends to its stockholders, not including cash distributions to S Corporation stockholders for income taxes, of \$5,999 and \$1,000 during the years ended August 31, 1989 and 1988, respectively.

Stock Option Programs

In connection with the settlement of a stockholder dispute, the Company purchased 660,000 shares of its common stock from the stockholder for \$10,800 and received an additional 330,000 shares for minimal consideration. The settlement provides that the 330,000 shares must be used in an incentive plan for the Company's management. On January 26, 1990, the Company's Board of Directors approved the grant of stock options, and subsequently the Company entered into stock option agreements (made effective January 2, 1990) with key employees of the Company granting options to purchase the 330,000 shares of Class A common stock referred to above at an exercise price of ten dollars and ninety-one cents per share. On January 2, 1992, 40% of the stock options become exercisable and an additional 20% become exercisable each January 2 thereafter through 1995. The stock options remain exercisable until the earlier of 90 days after the employee's termination of employment or ten years from the date such stock options were granted.

On August 31, 1990, pursuant to a resolution passed by the Board of Directors on August 1, 1990, the Company amended its stock option agreement with a former officer of the Company. Pursuant to this amendment, the Company agreed to vest all of the former officer's 33,000 options to purchase Class A common stock and permit the former officer to exercise such options at any time through the tenth anniversary of the date the options were granted.

Effective July 20, 1990 the Company's Board of Directors adopted a Key Employee Plan (the "Employee Plan"), subject to approval of the Company's stockholders within 12 months of such date. The Employee Plan provides that incentive and nonstatutory stock options to purchase Class A common stock may be granted from time to time until the Employee Plan is terminated by the Board of Directors. The maximum number of shares of Class A common stock for which options may be granted during any year is 1% of total issued and outstanding shares of Class A common stock as calculated on January 1 of such year; provided, however, that during the first ten years in which the Employee Plan is in effect, the Company may grant options for an additional one percent, on a cumulative basis, of the total issued and outstanding shares of Class A

NOTES TO FINANCIAL STATEMENTS - continued

(Dollars in Thousands)

common stock as of January 1 of the first year. For the first ten years in which the Employee Plan is in effect, no more than 750,000 shares of Class A common stock shall be cumulatively available for issuance of shares upon exercise of incentive stock options.

The Employee Plan Committee (the "Committee") shall determine the time or times when each incentive or nonstatutory stock option vests and becomes exercisable; provided no stock option shall be exercisable within six months of the date of the grant (except in the event of death or disability), and no incentive stock option shall be exercisable after the expiration of ten years from the date of the grant. The exercise price of incentive stock

options to purchase Class A common stock shall be at least the fair market value of the Class A common stock on the date of the grant. The exercise price of nonstatutory options to purchase Class A common stock is determined by the Committee in its sole discretion. As of August 31, 1990, no options to purchase Class A common stock have been granted under the Employee Plan.

Initial Public Offering

The Company effected an initial public offering of Class A common stock on March 27, 1990. The Company issued 3,250,000 shares at ten dollars per share and realized net proceeds of \$27,964, net of issuance costs.

7 COMMON STOCK WARRANTS

In connection with the organization of the Company, the Board of Directors authorized the issuance of warrants to purchase Class A common stock at 7.58 cents per share, which approximates the per share price paid by the initial stockholders. Such warrants to purchase Class A common stock were issued on August 31, 1987 for a nominal fee of two thousand dollars in connection with the acquisition of the assets of GSW.

During the years ended August 31, 1990 and 1989, warrants to purchase 28,861 and 6,609,538 shares of Class A common stock, respectively, were exercised. The exercise price of 7.58 cents per share is included in Class A common stock in the accompanying financial statements. As of August 31, 1990, all such warrants have been exercised.

8 EMPLOYEE BENEFIT PLANS

Union Pension Plan

Effective September 1, 1987, and as amended and restated January 1, 1990, the Company adopted a qualified noncontributory defined contribution pension plan which provides benefits for all eligible employees covered by a collective bargaining agreement. The Company contributed 3.5% of each participant's compensation to this plan during the years ended August 31, 1989 and 1988. This was changed to 4% for fiscal year 1990. Total contributions by the Company for fiscal years 1990, 1989 and 1988 were \$3,345, \$2,483 and \$1,963, respectively. The participants vest in these contributions over five years. Credit for service with USS is included in determining the vesting service requirement.

Management Employee Savings and Pension Plan

Effective September 1, 1987, and as amended and restated January 1, 1990, the Company adopted a savings and pension plan which provides benefits for all eligible employees not covered by a collective bargaining agreement. This plan is comprised of two qualified plans: (1) a management employee savings 401(k) plan with a cash or deferred compensation arrangement and discretionary matching contributions and (2) a noncontributory defined contribution pension plan.

Participants may direct the investment of funds related to their deferred compensation in this plan. The employee savings plan provides for discretionary matching contributions as determined each plan year by the Company's Board of Directors. The Board of Directors elected to match each participant's contributions to the employee savings plan up to 4 percent of their compensation for fiscal years 1990, 1989 and 1988. The pension plan provided for contributions by the Company of 3.5 percent of each participant's compensation for fiscal years 1989 and 1988. This was changed to 4% for fiscal year 1990. During fiscal years 1990, 1989 and 1988, total contributions by the Company were \$1,211, \$490 and \$367, respectively. The participants vest in the Company's contributions over five years. Participants with service prior to January 1, 1988 are fully vested.

Profit Sharing and Bonus Programs

The Company has a profit sharing program for full-time eligible employees. Participants receive payments based upon operating income reduced by an amount equal to a portion of the Company's capital expenditures. Also, the Board of Directors approved the payment of management bonuses during fiscal years 1990, 1989 and 1988. Total profit sharing and bonus payments accrued during

NOTES TO FINANCIAL STATEMENTS - continued

(Dollars in Thousands)

the years ended August 31, 1990, 1989 and 1988 were approximately \$9,509, \$12,392 and \$11,160, respectively.

Supplemental Executive Plans

The Company maintains insurance and retirement agreements with certain of the executive officers. Pursuant to the insurance

agreements, the Company pays the annual premiums and receives certain policy proceeds upon the death of the executive. Pursuant to the retirement agreements, the Company provides for the payment of supplemental benefits to certain executive officers upon retirement.

9 MAJOR CUSTOMER (DISTRIBUTOR) AND INTERNATIONAL SALES

During the years ended August 31, 1990, 1989 and 1988, the Company derived approximately 27, 24 and 30%, respectively, of its net sales through one customer, who is a distributor to other companies. During the year ended August 31, 1989, the Company

derived approximately 16% of its net sales from international customers with sales to Japan accounting for approximately 13% of net sales. International sales during the years ended August 31, 1990 and 1988 did not exceed 10% of net sales.

10 RELATED PARTY TRANSACTIONS

Certain stockholders, directors and officers of the Company were formerly members of certain law firms which act as the Company's outside legal counsel. The Company paid such firms aggregate fees of \$1,688 and \$2,917 during the years ended August 31, 1989 and 1988, respectively.

In August 1989, the Company purchased 181,500 shares of the Company's Class A common stock from a director/stockholder for sixteen dollars and thirty-six cents per share, or an aggregate of \$2,970. Further in August 1989, the Company entered into an agreement with a company wholly owned by the director/stockholder to sell the Company's investment in a wholly owned subsidiary, which was formed during the year ended August 31, 1989 and to which the Company contributed \$5,000. The Company's sale of this subsidiary resulted in a loss of approximately \$2,000 and the amount of the Company's investment

in the subsidiary was written down to \$3,000 and is included in prepaid expenses and other current assets as of August 31, 1989 in the accompanying financial statements.

In connection with the sale of its subsidiary, the Company assumed an obligation of the subsidiary to pay two brothers of the director/stockholder annual compensation of \$100 each for certain consulting services through December 31, 1991. Accordingly, the Company made payments of \$175 to each of the brothers in the year ended August 31, 1990, which amounts constituted compensation for calendar year 1989 and the first three quarters of calendar year 1990.

In connection with the resolution of certain stockholder disputes, the Company paid approximately \$900 of legal fees on behalf of such stockholders during the year ended August 31, 1989.

11 SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

A summary of quarterly financial information for the years ended August 31, 1989 and 1990 is as follows:

<i>Dollars in Thousands, Except Per Share Data</i>	YEAR ENDED AUGUST 31, 1989	QUARTER 1	QUARTER 2	QUARTER 3	QUARTER 4
Net sales	\$130,438	\$111,539	\$137,297	\$142,550	
Gross margin	31,220	22,756	32,338	36,493	
Pro forma net income	14,601	10,666	15,169	15,691	
Pro forma net income per common share	\$ 1.09	\$.80	\$ 1.14	\$ 1.27	

<i>Dollars in Thousands, Except Per Share Data</i>	YEAR ENDED AUGUST 31, 1990	QUARTER 1	QUARTER 2	QUARTER 3	QUARTER 4
Net sales	\$132,203	\$121,132	\$133,572	\$130,059	
Gross margin	28,912	20,871	29,168	24,443	
Pro forma net income	11,813	7,320	12,177	10,313	
Pro forma net income per common share	\$ 1.01	\$.63	\$.87	\$.69	

FORM MR-RC
Revised 2/1/89
RECLAMATION CONTRACT

File Number _____

Effective Date _____

Rec. DOGM
3-21-91

STATE OF UTAH
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING
355 West North Temple
3 Triad Center, Suite 350
Salt Lake City, Utah 84180-1203
(801) 538-5340

Rec. DOGM
3-21-91
DRN

INTERIM RECLAMATION CONTRACT

---ooOoo---

For the purpose of this INTERIM RECLAMATION CONTRACT the terms below are defined as follows:

"NOTICE OF INTENTION" (NOI): (File No.) M/021/005; M/021/008;
M/021/002 (partial)
(Mineral Mined) Iron Ore

"MINE LOCATION":
(Name of Mine) Comstock; Iron Mountain
(Description) _____

"DISTURBED AREA":
(Disturbed Acres) Exhibit A
(Legal Description) Exhibit A

"OPERATOR":
(Company or Name) Geneva Steel
(Address) P.O. Box 2500
Provo, Utah 84603
(Phone No.) (801) 227-9000

"OPERATOR'S REGISTERED AGENT":

(Name)
(Address)

(Phone No.)

Robert A. Johnson
Vice President and General Counsel
Geneva Steel
10 South Geneva Road
Vineyard, UT 84058
227-9000

"OPERATOR'S OFFICER(S)":

Joseph A. Cannon - President, CEO
Robert J. Grow - Executive Vice
President, Chief Operating Officer

"SURETY":

(Form of Surety - Exhibit B)

Self Bonding Agreement

"SURETY COMPANY":

(Name, Policy or Acct. No.)

See Exhibit B

"SURETY AMOUNT":

(Escalated Dollars)

\$1,180,500

"ESCALATION YEAR"

"STATE":

"DIVISION":

"BOARD":

State of Utah
Division of Oil, Gas and Mining
Board of Oil, Gas and Mining

EXHIBITS:

A "DISTURBED AREA":
B "SURETY":

Revision Dates:

This Interim Reclamation Contract (herein referred to as "Contract") is entered into between Operator and the Board.

WHEREAS, Operator has entered into a Reclamation Contract with the state of Utah by and through the Division of Oil, Gas and Mining (the "Division") relating to an approved reclamation plan under Notice of Intention (NOI) File No. M/021/008, and has provided surety therefore approved by the Board of Oil, Gas and Mining (the "Board"); and

WHEREAS, the Division and the Operator desire that NOI M/021/008 be modified to include nearby small mining operations of Operator; and

WHEREAS, the Operator has purchased the so-called Comstock Mine from CF&I Company, and that mine is subject to NOI M/021/005 held by CF&I; and

WHEREAS, the Operator has applied for transfer of NOI M/021/005 to Operator, and approval of such transfer requires that Operator enter into a reclamation contract with the Division and provide a substitute surety bond approved by the Board; and

WHEREAS, the Operator has purchased the so-called UII Comstock Plant Area from BHP Utah International, Inc., and that area, together with other properties held by BHP Utah International, Inc., is subject to NOI M/021/002 held by BHP; and

WHEREAS, the Operator has applied for a partial transfer of NOI M/021/002 to Operator, and approval of such transfer require that Operator enter into a reclamation contract with the Division and provide a substitute surety bond approved by the Board; and

WHEREAS, the Operator and the Division desire to consolidate NOI's M/021/008, M/021/005, and the portion of M/021/002 covering the UII Comstock Plant Area (referred to as "the Subject NOI's") into a single NOI; and

WHEREAS, additional technical data must be provided by Operator and reviewed by the Division in order to finalize the Operator's revised and consolidated reclamation plan and to determine with precision the amount of the surety needed therefor; and

WHEREAS, Operator and the Board have agreed that an interim reclamation contract should be entered into by Operator and the Board and an interim surety bond be provided by Operator to be effective until Operator's revised and consolidated reclamation plan is approved and a final reclamation contract with an accompanying surety bond can be consummated.

NOW, THEREFORE, the Board and the Operator agree as follows:

1. Operator agrees to conduct reclamation of the Disturbed Area in accordance with the Act and implementing regulations, the Subject NOI's, and the reclamation plans under the Subject NOI's as applicable.
2. Concurrent with the execution hereof, Operator has provided surety to assure that reclamation is conducted, in form and amount acceptable to the Board, which surety is in the form of the surety attached hereto as Exhibit B and made a part hereof. The surety shall remain in full force and effect according to its terms unless modified by the Board in writing. If the surety contract expressly provides for cancellation, then, not less than 30 days, prior to the expiration date of the surety, the Operator shall provide a replacement surety in a form and amount acceptable to the Board. If the Operator fails to so provide an acceptable replacement surety, the Division may order the Operator to cease further mining activities and to begin reclamation of the site. In addition, if the Operator fails to so provide an

acceptable replacement surety, the Division may call or draw upon the full amount of existing surety prior to cancellation or expiration.

3. Operator agrees to pay public liability and property damage claims resulting from mining as determined by the Board or the Division, to the extent provided in the Act.
4. Operator agrees to perform all duties and fulfill all reclamation requirements applicable to the mine as required by the Act and implementing rules, the Subject NOI's, and the reclamation plans under the Subject NOI's as applicable.
5. This Contract shall remain in force until superseded by a definitive Reclamation Contract and an accompanying surety bond based upon an approved reclamation plan covering the Disturbed Area to be defined with particularity therein, which should occur within one year of the date hereof. If the Operator fails to secure an approved definitive Reclamation Contract and an accompanying surety covering the disturbed area within one year after the Effective Date of this Contract, the Division may pursue any available remedies, including, but not limited to, an order to cease all operations at the Iron Mountain and Comstock Mines and to initiate and complete final reclamation at those mines. The Operator's liability under this Contract may be partially terminated and the amount of the surety adjusted correspondingly if the Division certifies that the Operator has reclaimed discrete portions of the Disturbed Area in accordance with the Act and implementing rules, the Subject NOI's and the reclamation plans, as applicable.

6. Operator agrees to indemnify and hold harmless the State, Board and Division from any claim, demand, liability, cost charge, suit, or obligation of whatsoever nature arising from the failure of Operator or Operator's agents, and employees, or contractor to comply with this Contract.
7. Operator may, at any time, submit a request to the Board to substitute surety. The Board, in its sole judgment and discretion, may approve such substitution if the substitute surety meets the requirements of the Act and the implementing rules.
8. This Contract shall be governed and construed in accordance with the laws of the State.
9. If Operator shall default in the performance of the obligations heretofore, Operator agrees to pay all costs and expenses, including attorneys fees and costs generated by the Division and/or the Board in the enforcement of this Contract.
10. Any breach of the provisions of this Contract by Operator may, at the discretion of the Division, result in an order to cease mining operations. After opportunity for notice and hearing, the Division, or Board, as appropriate, may revoke the Notice of Intention, order reclamation, or order forfeiture of the Surety, or take such other action as is authorized by law.
11. In the event of forfeiture of the Surety, Operator shall be liable for any additional costs in excess of the surety amount which are required to comply with this contract. Any excess monies resulting from forfeiture of the Surety, upon completion of reclamation and compliance with this Contract, shall be returned to the rightful claimant.

12. This Contract represents the entire agreement of the parties involved, and any modification must be approved in writing by the parties involved.

13. Each signatory below represents that he/she is authorized to execute this Contract on behalf of the named party.

SO AGREED this _____ day of _____, 19__.

APPROVED AS TO FORM AND AMOUNT OF SURETY:

By _____
Chairman, Board of Oil, Gas and Mining

EXHIBIT A

to
Interim Reclamation Contract
Geneva Steel

Description of disturbed areas and estimated reclamation costs. All acreages are subject to adjustment after completion of pending survey.

I. Iron Mountain Mine Area

A. Areas described in NOI M/021/008

1.	Iron Mountain	12 acres	\$ 36,000
2.	Blackhawk Fines Area	27 acres	\$ 81,000
3.	Mountain Lion	53 acres	\$159,000

B. Areas not previously covered by NOI's

1.	Burke Pit (Straddles the section line between Sec. 34 and Sec. 35, T36S, R14W. Include portions of SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Sec. 35, and SE $\frac{1}{4}$ NE $\frac{1}{4}$ Sec. 34.	1.5 acres	\$ 4,500
2.	Chesapeak & Excellsior In W $\frac{1}{2}$ SE $\frac{1}{4}$ and S $\frac{1}{2}$ S $\frac{1}{2}$ NE $\frac{1}{4}$, Sec. 25, T36S, R14W.	8 acres	\$24,000
3.	Tip Top In E $\frac{1}{2}$ NW $\frac{1}{4}$, Sec, 25, T36S, R14W.	3 acres	\$ 9,000

II. Comstock Mine Area

A. Area included among others and described in NOI M/021/002
(BHP-Utah Minerals International).

1.	UII Comstock Plant Area	36 acres	\$108,000
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B. Area described in NOI M/021/005 (CF&I Company)

1.	Comstock Area (Original acreage 265. Twelve acres subsequently covered by NOI M/021/008 as item I.A.1 above - Iron Mountain Mine)	253 acres	\$759,000
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